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SOCIAL SECURITY

The President's Proposal

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Social Security: The President's Proposal

Mr. Chairman and Members of the Committee:

It is a pleasure to be here today to discuss the President's most recent proposal for addressing Social Security and use of the unified budget surplus. This proposal concerns one of the most important issues facing the nation, both now and over the longer term. Social Security forms the foundation for our retirement income system and, in so doing, provides benefits that are critical to the well-being of millions of Americans. Current unified budget surpluses provide a valuable opportunity to improve the nation's capacity to address the looming fiscal challenges arising from the retirement of the baby boom generation and transition to a more sustainable Social Security program. As you know, Mr. Chairman, a wide array of proposals have been put forth to restore Social Security's solvency, and the Congress will need to determine which proposals or elements thereof best reflect our country's goals for this retirement income program.

In testimony before this Committee's Subcommittee on Social Security this past spring,¹ we offered an analytic framework for assessing reform proposals. That framework consists of three basic criteria:

- the extent to which the proposal achieves sustainable solvency and how the proposal would affect the economy and the federal budget;
- the balance struck between the twin goals of income adequacy (level and certainty of benefits) and individual equity (rates of return on individual contributions); and
- how readily such changes could be implemented, administered, and explained to the public.

Mr. Chairman, as you requested, my testimony today will discuss the President's current proposal for Social Security financing in the context of this framework. Importantly, last week we issued a report applying these same criteria to several pending Social Security reform proposals,

¹Social Security: Criteria for Evaluating Social Security Reform Proposals (GAO/T-HEHS-99-94, March 25, 1999).

including the President's Social Security financing proposal.² My remarks today about the President's proposal are based primarily on our analysis in that report. Our report also analyzes the President's Universal Savings Account (USA) proposal for individual savings accounts, and I will also touch briefly on this proposal. While I understand that the subject of this hearing is the President's most recent proposal, I would be happy to answer questions on any of the proposals included in our report.

Context: Long-Term Outlook Is Important

It is important to look at the President's proposal in the context of the fiscal situation in which we find ourselves. After nearly 30 years of unified budget deficits, we look ahead to projections for "surpluses as far as the eye can see." At the same time, we know that we face a demographic tidal wave in the future that poses significant challenges for the Social Security system, Medicare, and our economy as a whole. In this context, we commend the President's use of a longer-term framework for resource allocation than has been customary in federal budgeting. We would further note that the Congress is also concerned with the future and has committed to save a significant portion of the current surplus for debt reduction.

Although all projections are uncertain—and they get more uncertain the farther out they go—we have long held that a long-term perspective is important in formulating fiscal policy for the nation. Each generation is in part the custodian for the economy it hands the next and the nation's long-term economic future depends in large part on today's budget decisions. This perspective is particularly important because our long-term economic model and that of the Congressional Budget Office (CBO) continue to show that, absent a change in policy, the changing demographics to which I referred above will lead to renewed deficits. Unlike in prior periods when we entered a period of surpluses after years of deficits, demographic trends are now working against us rather than for us. This longer-term fiscal challenge provides the critical backdrop for making decisions about today's unified surpluses.

²Social Security: Evaluating Reform Proposals (GAO/AIMD/HEHS-00-29, November 4, 1999). In addition to analyzing the President's transfer proposal, this report also presents an analysis of the President's proposal for Universal Savings Accounts (USA) accounts. The Administration considers the USA proposal, which would establish individual retirement savings accounts, separate from its Social Security proposal. Besides the President's, the proposals we considered are: (1) the Social Security Guarantee Act outlined by Ways and Means Committee Chairman Bill Archer and Social Security Subcommittee Chairman Clay Shaw; (2) H.R. 1793, The 21st Century Retirement Security Act, (3) the Senate Bipartisan bill, S. 1383, announced by Senators Judd Gregg, Bob Kerrey, John Breaux, and Chuck Grassley, and (4) the Social Security plan outlined by House Budget Committee Chairman John Kasich.

Budget surpluses are the result of a good economy and difficult policy decisions. They also provide a unique opportunity to put our nation on a more sustainable path for the long term, both for fiscal policy and the Social Security program itself. Current decisions can help in several important respects: (1) current fiscal policy decisions can help expand the future capacity of our economy by increasing national savings and investment, (2) engaging in substantive reforms of retirement and health programs can reduce future claims or better permit their financing, (3) by acting now, we have the opportunity of phasing in changes to Social Security and health programs over a sufficient period of time to enable our citizens to adjust, and (4) failure to achieve needed reforms in the Social Security and Medicare programs will drive future spending to unsustainable levels and eventually “squeeze out” most or all discretionary spending. If we let the achievement of the current unified budget surplus lull us into complacency about the budget, then in the middle of the 21st century, the nation could face daunting demographic challenges without having built the economic capacity or program/policy reforms to handle them. Stated differently, if we fail to make prudent decisions about the disposition of budget surpluses or fail to engage in meaningful entitlement reform, the nation’s fiscal future and the standard of living for future generations of Americans will likely decline.

The President’s Social Security Proposal

According to Administration officials, the President’s proposal would constitute a “significant down payment” on Social Security reform while contributing to achieving the Administration’s goal of eliminating publicly held debt by 2015. The proposal would reduce debt held by the public from current levels by both the amount of the Social Security surplus and a portion of the on-budget surplus equivalent to the general fund transfer. The proposal would not, however, reform the basic Social Security program in any way. Rather, the Administration’s proposal seeks to increase the likelihood that projected unified surpluses would be preserved for Social Security and debt reduction. Officials have also explained that the Administration remains committed to long-term Social Security reform that would extend the solvency of the Old Age and Survivors Insurance and Disability Insurance (OASDI) trust funds at least through 2075. The Administration has expressed a desire to work on a bipartisan basis to enact both its current proposal and long-term Social Security reform.

The President's current proposal for addressing Social Security, now embodied in legislative language contained in S. 1831 and H.R. 3165,³ differs in some respects from the proposal put forth in his July 1999 Midsession Review. One important difference concerns the President's previous intention to increase future revenues to the OASDI trust funds by investing a portion in equities. This part of the proposal has now been dropped.

What remains is the proposal to provide additional program financing by transferring general funds to the OASDI trust funds. It is this transfer proposal that we analyzed in our recent report and that I will discuss in this testimony. As in the Midsession Review, the President proposes to use the entire Social Security surplus and a portion of the projected on-budget surplus to reduce debt held by the public. The President projects that his proposal would reduce debt held by the public by \$3.6 trillion over the next 15 years, eliminating publicly held debt by 2015. Beginning in 2011, the President proposes to transfer additional Treasury securities to the OASDI trust funds in an amount equal to the "fiscal dividend"—i.e., interest savings that result from lower publicly held debt. In effect, the President proposes to reduce publicly held debt by increasing government-held debt. Unlike the Midsession, the transfers are not open-ended but end at 2044. The Office of the Chief Actuary at the Social Security Administration (SSA), which provides estimates of how proposals would affect the OASDI trust funds based on the Trustees' intermediate assumptions, has stated that the President's transfer proposal would extend the solvency of the trust funds from 2034 to 2050. It would not, however, restore the program's long-range (75-year) actuarial balance. This has been the traditional long-range test of solvency used by the Social Security Trustees.

Let me turn now to our analysis of the President's proposal based on the three criteria we have developed—financing sustainable solvency, balancing individual equity and income adequacy, and how readily changes could be implemented, administered, and explained to the public. I would like to note at the outset that these criteria represent certain trade-offs that policymakers will need to weigh in considering changes. It is virtually impossible for any proposal to rate perfectly on all criteria. As I have said in earlier testimony, it is critically important to evaluate the effects of an entire package before considering whether these proposed changes add up to acceptable program reform. If a comprehensive

³Those bills contain other provisions in addition to the transfer of general funds to Social Security. These provisions extend the discretionary caps through 2014, clarify and extend through 2014 the pay-as-you-go requirement for direct spending and receipts, and set aside as a Medicare surplus reserve one-third of any on-budget surplus for fiscal years 2000 through 2009.

package of reforms meets policymakers' most important goals for Social Security, individual elements of the package may be more acceptable. In addition interactive effects may tend to smooth the rough edges of individual elements.

Financing Sustainable Solvency

Our first criterion evaluates the extent to which the proposal achieves sustainable solvency over the 75-year projection period and more broadly, how the proposal would affect the economy and the federal budget. While the President's current proposal for Social Security financing differs in some respects from his earlier proposals—for example, the President no longer proposes to invest a portion of the OASDI trust funds in equities—in other respects, the bottom line of the proposal with respect to sustainable solvency is unchanged. The Administration acknowledges that its proposal is not a comprehensive reform package, describing it as a first step.

In summary, the proposal:

- Reduces debt held by the public from current levels, which reduces net interest costs, and raises national saving, thereby contributing to future economic growth.
- Provides general revenues to the OASDI trust funds in the future, thereby representing a fundamental change in Social Security financing.
- Has no effect on the projected cash flow imbalance in the Social Security program's taxes and benefits, which begins in 2014.
- As a result, the President's proposal represents a financing, rather than a Social Security reform proposal.

In our recent report, we used our long-term economic model to help us assess the potential fiscal and economic impacts of Social Security reform proposals. In analyzing the President's transfer proposal in our report and in this testimony, we considered its budgetary and economic effects in isolation from all other Administration proposals, including those in his Midsession update and also the non-Social Security related provisions of S. 1831 and H.R. 3165. This treatment is consistent with our analyses of the other proposals discussed in our report.

- We compared these proposals, including the President's transfer proposal, to three alternative fiscal policy paths developed in our ongoing model work. Implicitly all paths assume that Social Security and Medicare

benefits are paid even when the trust funds no longer hold sufficient assets to cover benefits.⁴

- A **“No Action”** path that assumes no changes in current policies and thus results in saving the unified surpluses. This path, which I have sometimes called **“Save the Unified Surplus,”** assumes that actual discretionary spending—including for emergencies—remains within the existing discretionary caps.
- An **“Eliminate non-Social Security surpluses”** path that assumes that permanent unspecified policy actions (i.e., spending increases and/or tax cuts) are taken that eliminate projected on-budget surpluses through 2009.
- A **“Long-term on-budget balance”** path that assumes that projected on-budget surpluses are eliminated through 2009. Thereafter, the on-budget portion of the unified budget is kept in balance for the rest of the simulation period by actions that cut spending and/or raise revenue.

Since 1992 we have provided the Congress with a long-term perspective by modeling the implications of differing fiscal policy paths for the nation's economy. We offer these simulation results not as precise forecasts but rather as illustrations of the relative fiscal and economic outcomes associated with alternative policy paths. That is, our long-term simulations provide a useful way to compare the potential outcomes of alternative policies within a common economic framework. Our model reflects the key interaction between the budget and the economy—the effect of the unified federal deficit/surplus on the amount of national saving available for investment, which influences long-term economic growth.

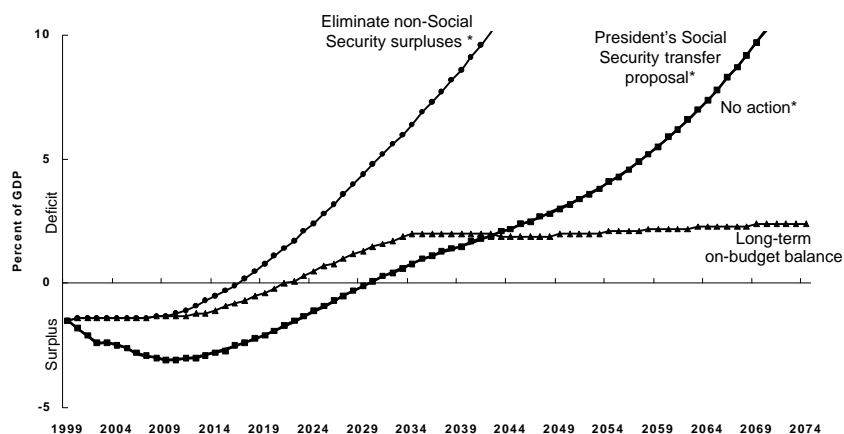
Our analysis shows that the President's Social Security transfer proposal has the same effect on the economy and the federal budget as a policy of “No Action” that would simply continue spending and revenue along its current path while making no change in Social Security or Medicare benefit payments. In effect, the President's Social Security transfer proposal does not address sustainable solvency. While it extends the solvency of the OASDI trust funds by 16 years to 2050, it does this without substantive reform of the program. Stated differently, the President's proposal does not directly address the sustainability issue. The Administration acknowledges this saying that it is a down payment that we can make on Social Security reform this year.

⁴The Social Security Act specifies that Social Security benefits may be paid “only” from the trust funds. As a result, absent a change in law, benefits would not be paid at the point when assets were insufficient to cover those benefits.

The following two figures compare the three fiscal policy paths—No Action, Eliminate on-budget surpluses, and Long-term on-budget balance—to the President's transfer proposal, showing the impact of each on the unified surplus/deficit and debt held by the public. In modeling the President's transfer proposal, we maintained all of the No Action assumptions about compliance with existing discretionary caps and no changes in current policy. Thus, the only difference between simulations of No Action and the President's transfer proposal are the explicit general fund transfers to Social Security.

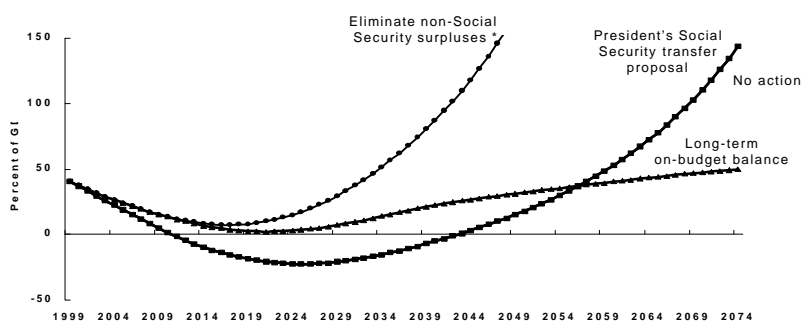
As a result, the graphs show three lines—not four—because the President's proposal, from an overall fiscal perspective, is identical in its effect with a policy of "No Action." This is because, in essence, the proposal transfers funds from one part of the budget (the on-budget, or non-Social Security portion) to another (the off-budget, or OASDI trust funds). On a unified basis, the transfers net out. Although they increase debt held by the trust funds, they have no effect on the unified fiscal position and no effect on levels of debt held by the public compared to No Action. The Administration has stated, however, that its proposal would reinforce the resolve to stay, in effect, on a No Action course by linking debt reduction to the transfer of new resources to Social Security.

Figure 1: President's Social Security Transfer Proposal Unified Deficits/Surpluses as a Share of GDP



*Data end when deficits reach 10 percent of GDP.
 Note: As noted in the text, the President's Social Security transfer proposal follows the no action path. Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

Figure 2: President's Social Security Transfer Proposal Debt Held by the Public as a Share of GDP



*Data end when debt reaches 150 percent of GDP.
 Note: As noted in the text, the President's Social Security transfer proposal follows the no action path. Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

According to Administration statements, the President's proposal seeks to provide a mechanism to increase the likelihood that projected unified surpluses would be preserved for Social Security and debt reduction. No Action assumes that the entire unified surplus would be used for debt reduction. Although this reflects current law, the current debate suggests

it is increasingly unlikely that the on-budget surplus will be used for debt reduction. The President's transfer proposal would reserve the Social Security surplus and a portion of the projected on-budget surplus for debt reduction, articulating in law what has been generally agreed by both the President and the Congress in principle. Such debt reduction would confer significant short- and long-term benefits to the budget and the economy.

Our work on the long-term budget outlook has illustrated the benefits of maintaining surpluses for debt reduction. Interest on publicly held debt today represents the third largest program in the federal budget, representing about 15 percent of federal spending. Reducing the publicly held debt reduces these costs, freeing up budgetary resources for other programmatic priorities. For the economy, running unified surpluses and reducing debt increases national saving and frees up resources for private investment. As shown in figures 1 and 2, compared to spending the on-budget surpluses under "Eliminate non-Social Security surpluses," the President's transfer proposal would result in higher unified surpluses, lower unified deficits, and lower debt held by the public.

Our long-term simulations have consistently shown that any path saving all or a major share of projected unified budget surpluses ultimately leads to a stronger fiscal position and a stronger economy. GDP per capita would more than double from present levels by saving most or all of projected unified surpluses, while incomes would actually fall in the long term if we fail to sustain any of the unified surplus. Although rising income is always important, it is especially critical for the 21st century, for it can increase the economic capacity of a slowly growing workforce to maintain a good standard of living as well as to finance future government programs and the commitments for the baby boomers' retirement.

While reducing debt held by the public appears to be a centerpiece of the proposal—and has significant benefits—the general fund transfer is a separate issue. The transfer is not technically necessary: whenever revenue exceeds outlays and the cash needs of the Treasury—whenever there is an actual unified surplus—debt held by the public falls. The President's proposal appears to be premised on the belief that the only way to sustain unified surpluses is to tie them to Social Security. He has merged two separate questions: (1) how much of the unified surplus should be devoted to reducing debt held by the public; and (2) how should the nation finance the Social Security program in the future.

While providing the OASDI trust funds with additional Treasury securities equal to the projected "fiscal dividend" from debt reduction may be intended to help preserve projected unified surpluses, we have several

concerns about this aspect of the President's proposal. The trust funds already earn interest on their surpluses. Under the President's current proposal the trust funds will receive, in effect, a second interest payment equal to interest savings that result from paying down publicly-held debt. This is simply a grant of future general revenues to Social Security—which brings me to my second concern. As the SSA Deputy Chief Actuary has stated, while the transfers are intended to be roughly equal to the expected reduction in interest on debt held by the public as a result of the Social Security surpluses in fiscal years through 2000 through 2015, the transfers are not contingent on the actual amount of debt reduction. In other words, under the President's current proposal, the transfers would occur whether or not debt reduction actually takes place and the interest saving is realized.

We are also concerned about the implications of the general fund transfer for Social Security financing. As in the earlier proposals, the President's current proposal in effect trades debt held by the public for debt held by the trust funds. It thereby commits future general revenues to the Social Security program. This is true because the transfers would be in addition to any buildup of payroll tax surpluses. Securities held by the OASDI trust funds have always represented annual cash flows in excess of benefits and expenses, plus interest.⁵ Under the President's proposal, this would no longer continue to be true. The value of the securities held by the trust funds would be greater than the amount by which annual revenues plus interest exceed annual benefits and expenditures.

This means that for the first time there would be an explicit general fund subsidy. All of the proposals we analyzed in our report make some use of general funds and, as I have said before, there are legitimate arguments on both sides of the question of bringing some general fund financing to Social Security—but the issue should be debated openly and on its merits.

An explicit general fund subsidy would be a major change in the underlying theoretical design of the Social Security program. Whether you believe it is a major change in reality depends on what you assume about the likely future use of general revenues to meet expected shortfalls in program financing. For example, current projections are that in 2034 the OASDI trust funds will lack sufficient resources to pay the full promised benefits. The Social Security Act specifies that Social Security benefits

⁵Cash flow into the Social Security trust funds is composed of payroll taxes and a portion of the income taxes paid on Social Security benefits. Income taxes make up a relatively small component of the surplus. Interest paid to Social Security is analogous to interest paid on publicly held debt in that both come from the general fund. Interest on publicly held debt is recorded as an outlay. Interest to the trust funds is credited in the form of additional Treasury securities.

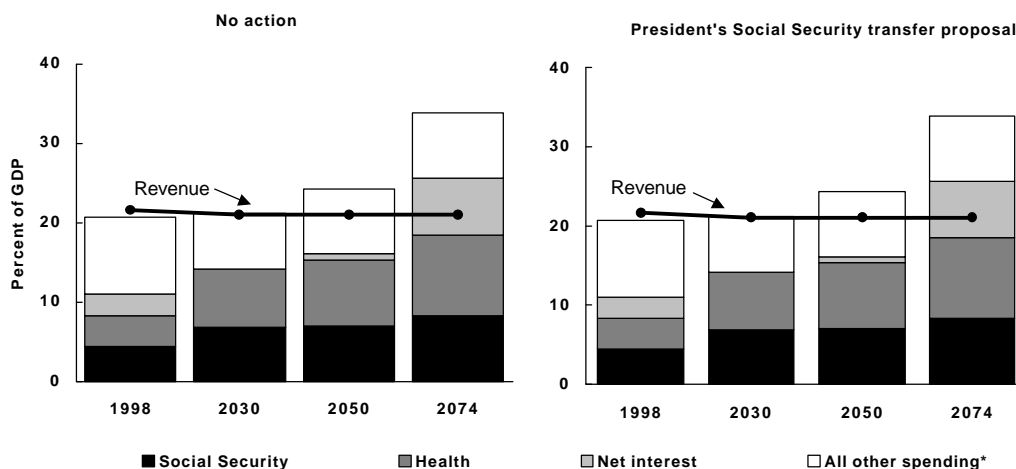
may only be paid from the trust funds. If you believe that the expected shortfall would—when the time came—be addressed by legislation that would authorize the use of general funds to pay Social Security benefits, then the shift embedded in the President's proposal merely makes that explicit. If, however, you believe that there would be changes in the benefit or tax structure of the fund instead, then the President's proposal represents a very big change. By increasing the securities in the trust funds, the President's transfer gives the Social Security program an explicit claim on future general fund revenues. In either case, the question of bringing significant general revenues into the financing of Social Security is a question that deserves full and open debate.

While the President is to be commended for the amount of debt reduction he is proposing, we remain concerned about the consequences for trust fund financing and Social Security program reform. It is fair to note that nothing in his proposal changes the fundamental structural imbalance in Social Security. The system's cash flow still turns negative in 2014 and Social Security becomes a draw on the general fund as it redeems its Treasury securities to pay promised benefits. When unified deficits re-emerge, however, baby boomers will still be retiring with long expected lifespans in retirement. If the President's proposal to transfer interest savings to the OASDI trust funds is adopted, their solvency on paper is extended, but the structural imbalance will remain. The new Treasury securities will be redeemed and constitute a new claim on the general fund until they run out in 2050. Cash to redeem these securities can only come from some combination of cuts in other spending, increases in taxes, or increases in borrowing from the public. Absent substantive program reform, our children and grandchildren will be saddled with a budget heavily burdened by commitments to fund entitlement programs for the elderly. (See figures 3 and 4.)

The risk is that the transfers in the President's proposal would induce an unwarranted complacency about the financial health of the Social Security program. From a macro perspective, the critical question is not how much a trust fund has in assets—or solvency—but whether the government as a whole has the economic capacity to finance benefits now and in the future—namely sustainability. This is illustrated in figures 3 and 4. These figures show the composition of federal spending as a percent of gross domestic product (GDP) and Social Security spending as a percent of federal revenue over the 75-year simulation period under the No Action path. Nothing in the President's transfer proposal changes these pictures. Social Security as a share of the economy and as a share of federal revenue remains unchanged under the President's proposal. The Administration acknowledges the need for further reform, but we are

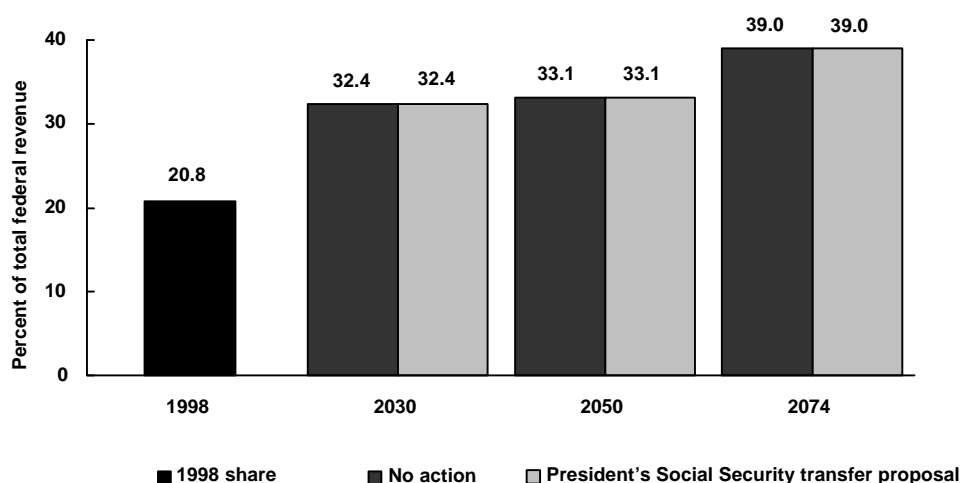
concerned that the proposed transfers will reduce the perceived need to do so until well into the next century.

Figure 3: Composition of Spending as a Share of GDP in 1998 and Under No Action and the President's Social Security Transfer Proposal



*All other spending includes offsetting interest receipts in 2030 under no action and the President's transfer proposal.
 Note: Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds.
 Sufficient data were unavailable to incorporate effects of the proposed USAs.

Figure 4: Social Security Spending as a Share of Total Federal Revenue in 1998 and Under No Action and the President's Social Security Transfer Proposal



Note: Analysis is limited to the effects of the President's proposal for general revenue transfers to the OASDI trust funds. Sufficient data were unavailable to incorporate effects of the proposed USAs.

Balancing Adequacy and Equity in the Benefit Structure

This criterion evaluates the balance struck between the twin goals of income adequacy and individual equity. Income adequacy refers to the level and certainty of benefits provided to retirees, the disabled, dependents and survivors. It is particularly important for low-income workers who are most reliant on the program, and may be achieved, in part, through a progressive benefit formula. Individual equity refers to rates of return on individual contributions. That is, it concerns the relationship between the benefits individuals receive and the contributions they have made to the Social Security system. Individual equity also implies greater choice and control for workers over their contributions to the system. It applies not only to equity within a generation, but across generations as well.

The current Social Security system makes certain tradeoffs between the degree of income adequacy and individual equity provided by its benefit structure. Redistributive transfers embedded in the current system create

an implicit “safety net” for workers and their families.⁶ At the same time, linking benefits to contributions invokes the standard of individual equity.

Because the President proposes no changes to the structure of the current Social Security system, his proposal does not affect income adequacy. It retains the existing safety net and the linkage between contributions and benefits. Specifically, the President’s proposal maintains current-law benefits for current and future retirees, including low-income workers and others most reliant on Social Security, and makes no changes to disabled, dependent, or survivor benefits. The proposal also makes no changes from the current Social Security structure in the way workers are covered, and it preserves the progressivity of the system. Additionally, it retains the compulsory nature of the current payroll tax.

To the degree that the President’s transfer proposal uses general revenue to fund the Social Security program it will have an impact on future contributions and benefits and therefore intergenerational equity may be adversely affected. Other proposals address the intergenerational equity issue by introducing individual accounts as an advance funding mechanism. These accounts may lead to increased retirement income for future retirees, thereby reducing their reliance on the Social Security program, and relieving the burden on future generations.⁷ However, the way these proposals would handle the current long-term financing shortfall and the costs of making a transition to a new system could have negative effects on intergenerational equity.

Implementing and Administering Reforms

This criterion evaluates how readily proposed changes could be implemented, administered, and explained to the public. Implementation and administration issues are important because they have the potential to delay—if not derail—reform if they are not considered early enough for planning purposes. Moreover, such issues can influence policy choices—feasibility and cost should be integral factors in the ultimate decisions regarding the Social Security program. In addition, potential transparency and public education needs associated with various proposals should be considered. Reforms that are not well understood could face difficulties in achieving broad public acceptance and support.

Because the President’s transfer proposal does not alter the current Social Security program in any way, there are no implementation costs, and the

⁶While there is no minimum benefit guarantee in the current Social Security program, the earnings-related structure of the program ensures that all eligible workers receive a benefit.

⁷See Social Security: Evaluating Reform Proposals (GAO/AIMD/HEHS-00-29, November 4, 1999).

program's current administrative costs will remain less than 1 percent of benefit outlays. Without programmatic change, there are no changes that must be explained to the public and no risk of an "expectations gap" with respect to benefits. It is important to note, however, that the mechanics of the proposed transfer of general funds to the OASDI trust funds are complex and difficult to follow. Public understanding of the financing of Social Security is necessary in order to retain broad-based support for, and confidence in, the program. In particular, it will be important for the public to understand that this transfer proposal is only one part of the solution to the OASDI trust funds' long-term solvency problem. For that reason, public education would still be necessary in order to avoid either unwarranted complacency or skepticism about the financial health of the program.

The USA Proposal

Let me turn, for a moment, to the President's other relevant proposal. Although the President considers his proposal for USAs⁸ to be separate from Social Security, these accounts are aimed at increasing the ability of Americans to fund their own retirement. The President has proposed that a USA be established for each worker with family earnings of at least \$5,000 annually. Low- and moderate-income workers would receive a flat annual general tax credit of up to \$300 and a 50-100 percent government match on voluntary contributions, also financed by income tax credits. Total contributions could not exceed \$1,000 annually, including the match. Low-income workers would get a one-to-one match to their contributions, while higher income workers would receive a lower percentage match or none at all. Both the credit and the match would ensure that most people would have some savings for retirement.

Because the administration has yet to fully develop the USA proposal, our assessment of it against our criteria is necessarily limited. With regard to the sustainable solvency criterion, the tax credit would increase private saving and reduce government saving with no net effect on national saving. The incentive provided by the government match of voluntary contributions to USAs could result in some increase in national saving. However, there is no expert consensus on the effect the USA proposal or any of the proposals that establish individual accounts would have on the saving behavior of individuals. The tax credit financing of USA accounts would either decrease projected unified surpluses or increase projected unified deficits.

⁸The proposal was described in administration statements made on April 14, 1999.

As a savings vehicle independent of the Social Security program, the USA proposal addresses the concepts of adequacy and equity differently. Progressivity is built into the USA structure through the government match, which provides a higher match for lower income workers and eliminates the match altogether for higher income workers. With USAs, workers could earn market returns but would bear the risk of market losses as well. In terms of individual choice and control over the accounts, workers could expect to have some investment choice, subject to certain limitations. Intergenerational equity is promoted by USAs to the extent that current workers save for their own retirement.

Costs associated with implementation and administration necessarily depend on the design of the program, which has not yet been detailed. However, some administrative costs would be expected, at least in starting the program and in educating the public on how it works. As the specifics of the program are developed, a public education program will be especially important to explain the USA structure as well as its significant elements, such as the matching funds provided by the government to low-income workers. For example, individuals would need information on basic investment principles, the risks associated with available choices, and the effect of choosing among alternatives that may be offered for annuitizing the accounts. Like any of the other individual account proposals, the USA proposal would need to be assessed on how it addresses the preservation of account balances for retirement purposes. We understand the President's USA proposal would not permit workers to make withdrawals from their individual accounts prior to retirement, thus seeking to ensure that funds will be available in retirement.

Other program details will need to be evaluated when the proposal is fully developed, such as the amount of individual choice to be permitted in making investment decisions. The existing description of the USA proposal does not specify what safeguards, if any, would be put in place to prevent politically motivated investing.

Conclusions

Unified budget surpluses represent both an opportunity and an obligation. We have an opportunity to use our unprecedented economic wealth and fiscal good fortune to address today's needs but an obligation to do so in a way that improves the prospects for future generations. This generation has a stewardship responsibility to future generations to reduce the debt burden they inherit, to provide a strong foundation for future economic growth, and to ensure that future commitments are both adequate and affordable. Prudence requires making the tough choices today while the

economy is healthy and the workforce is relatively large—before we are hit by the baby boom's demographic tidal wave.

Restoring solvency to the Social Security system is a formidable challenge. But we have an obligation to meet that challenge before Social Security begins to squeeze out spending on other national priorities and places an unbearable burden on future generations. The health of our economy and projected budget unified surpluses offer an historic opportunity to meet these challenges from a position of financial and economic strength. Such good fortune can indeed help us meet our historic responsibility—a fiduciary obligation, if you will—to leave our nation's future generations a financially stable system and retain our commitment to the elderly.

The transfer of surplus resources to the OASDI trust funds, which the Administration argues is necessary to lock in projected unified surpluses for the future, would constitute a shift in financing for the Social Security program. Such an approach would have the significant beneficial result of reducing debt held by the public. However, it would not constitute real programmatic reform because it does not modify the program's underlying commitments for the future. Moreover, the proposed transfer, by extending the solvency of the trust funds, could create complacency about the program's financing; this could make it more difficult to engage in the substantive program reform needed to reduce the unsustainable burden on the future economy.

The framework we have put forward is intended to help clarify the debate on various proposals in order to support the Congress in addressing this important national issue. The use of our criteria to evaluate all of the various reform proposals highlights the trade-offs that exist between efforts to achieve solvency for the OASDI trust funds and to maintain adequate retirement income for current and future beneficiaries. If comprehensive proposals are evaluated as to (1) their financing, fiscal, and economic effects, (2) their effects on individuals, and (3) their feasibility, we will have a good foundation for devising an overall reform package that will meet the most important objectives.

There is increasing recognition that the time has come for meaningful Social Security reform. No single existing proposal is likely to be the answer. Therefore it is important for Congress and the President to build on the dialogue engendered by these proposals. Further, in deliberating Social Security reform, it is important to keep Medicare in mind. Medicare insolvency looms sooner—and Medicare reform presents an even more formidable challenge than does Social Security reform. Social Security reform is not easy—but it is not impossible. Further, meaningful reform in

a timely fashion can enable us to exceed the expectations of all generations.

We at GAO stand ready to help you address both Social Security reform and other critical national challenges. Working together, we can make a positive and lasting difference for our nation and the American people.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions you or other Members of the Committee may have.

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